



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 1/9/2006

GAIN Report Number: TW6003

Taiwan

Market Development Reports

Taiwan Food Industry - Trend and Outlook

2006

Approved by:

Hoa Van Huynh, Director, Agricultural Trade Office
American Institute in Taiwan

Prepared by:

Melody Lee, Agricultural Marketing Specialist

Report Highlights:

To support the common goal of upgrading the country's economic scale, Taiwan's government now has become increasingly supportive the R&D of value-added products such as Biotech Agricultural Products, Healthcare Products and Chinese Medicine. Biotechnology will soon play an important role in the next phase of the island's economic development. Besides Biotechnology products, Home meal replacement, Processed foods and Healthcare products are also the main focus of Taiwan's food industry. The Green Silicon Island will focus more on providing services such as Food Products R&D/OEM/SCM total services and manufacture the finished products in China or Southeast Asia. Among all, biotech healthcare products provide the greatest potential to meet demands of the global trend of aging society. Taiwan's Department of Health (DOH) has proposed a draft amendment to the Health Food Control Law. The new law will focus on building a protocol based on scientific evidence to review the safety and healthcare effects. Once the draft amendment becomes law, it is expected that more healthcare products will be available in the market.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Taipei ATO [TW2]
[TW]

Background

Taiwan's food processing sector played an important role in the island's economic development. In 1953, agriculture accounted for 34.6% of Taiwan's total GDP. Through the exportation of agricultural products, both processed and unprocessed, Taiwan was able to earn foreign exchange and gradually expand its economic scale. Since the 1960's, the agricultural sectors importance to the Taiwanese economy has been in decline.

Beginning in 1990s, more and more food processing/manufacturing plants are moving away from Taiwan for the cheap and abundant labor in China or Southeast Asia. Considering food processing sector an important part of the economy, Taiwan's government now has become increasingly supportive of the R&D of value-added products such as Biotech Agricultural Products, Healthcare Products and Chinese Medicine.

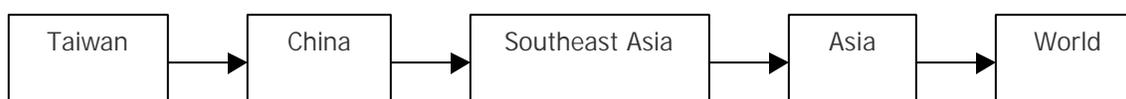
Biotechnology will soon play an important role in the next phase of the island's economic development. On May 31, 2002, Taiwan's Executive Yuan proposed the "Challenge 2008" national development plan to setup directions and goals to further the island's economic development. As part of the "Challenge 2008", Taiwan's Ministry of Economic Affairs (MOEA) has been promoting a "Two Trillion and Twin Star" program to lead Taiwan business toward a high value-added industrial era featured by innovation, invention, and R&D. Two Trillion is a slogan to grow Taiwan's semiconductor and flat-panel display (thin-film transistor LCD) sectors to NT\$1 trillion (US\$33B); while, Twin Star is to promote the digital content and biotechnology industries into the next-generation drivers for Taiwan's economic development.

Under the "Two Trillion and Twin Star" program, Taiwan's Department of Industrial Technology, MOEA has sponsored a national project - Industrial Technology Intelligence Services (ITIS) to assist Taiwanese businesses to strengthen their competitiveness. In a seminar hosting by ITIS on November 30, 2005, guest speakers from Taiwan's Food Industry Research and Development Institute (FIRDI) identified the following directions for Taiwan's food industry.

1. From Offshoring to Globalization

Taiwan has become a major investor in China, Thailand, Indonesia, the Philippines, Malaysia, and Vietnam. Despite the call for scatter investment and globalization, China remains the sexiest market for Taiwan food and beverage manufacturers. Up to 2004, a total of 2467 Taiwan food and beverage manufacturers have been invested USD 1.93 billions in China, representing 76 percent of total overseas investment in food manufacturing (source: the Investment Commission, MOEA).

Spotting the emerging market, Taiwanese Food manufacturer invested in China to take advantage of the low costs of labor, land, overhead, and most importantly for the great potential of the market demand in China. With linguistic/cultural advantage, Taiwan business has cultivated deeply in the root of China's food industry and is ready to extend and duplicate the experience first to the Southeast Asian markets then to the Asian regional market and finally to the Chinese ethnic market all over the world.



2. Offering Professional/Customized Food Products – R&D/OEM/SCM Services

For the past few decades, Taiwan has transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods. Today Taiwan plays an important role as the Original Equipment Manufacturer (OEM) for major brandnames in IT hardware businesses. With the competitive advantage and experience in intergrating the complicated process of IT manufacturing, Taiwan's food/beverage industry is hoping to apply/duplicate the well-developed business model and Standard Operating Procedure into food and biotech/Health Food businesses.

The speaker provided two examples to illustrate the concept. The success of these two examples both lies on a precise positioning (both as OEMs for beverages), heavy investment on equipments, strong R&D teams, superb supply chain mangement (SCM) protocols and comprehensive logistic services. The only missing component is an international brandname. Brandname development generally takes a lots of resources and time, Taiwan businessman rather focus something that generates turnover in a short time.

3. High technology in food/beverage manufacturing - IT and Biotechnology

The country's effort in upgrading innovation capability has gradually moved its way to a knowledge-based economy such as the R&D of Biotechnology. Biotech in Food mainly refers to: Chinese Medicine, Health-Care Products and Biotech Agricultural Products.

To take advantage of the well developed IT industry, the focus will be on integration of IT with Biotechnology. Radio Frequency Identification (RFID) is an example of the integration of IT and Biotechnology. RFID tag will be used to not only identifying the key elements of SCM necessary to establish traceability and/or identity preservation for GM and non-GM products for representative supply chains, but also in the modernization of the food retail and food service industry in Taiwan.

4. Meet demands of the Aging Society

Beginning in the second half of the twentieth century the rising life expectancy and the low fertility rates resulted in a decreasing numbers of youth, and the increasing numbers of the elderly. Currently the population 65 and older represents 9.5 percent (2004 estimates) of the total population on Taiwan. According to 2003's Taiwan Statistical Data Book, 14.4 percent in 2019 and in 2029, 21.4 percent of the population will be celebrating their 65th birthday in Taiwan.

This major demographic change will impose tremendous challenges in every aspect of the society to respond to the needs of the aging boomers on the island and all over the world. It will affect food, healthcare/medication, transportation, housing development, communications, investment and many other business/industry sectors in Taiwan. For example, shopping patterns and behaviors in the retail sector will not be the same. There will be more online grocery shopping with home delivery services for the elderly, the booming home meal replacement businesses, and the increasingly interest in functional products with measurable and instant effects on anti-aging and other health benefits.

Cashing in on the market potential, Taiwan food industry will conduct R&D and product/market development in the following areas: catering services, processed foods, and healthcare products to service demands of the global trend of aging society.

? **Home meal replacement**

Home meal replacement or meals on wheels can help senior citizens who might be able to live alone but are not fully up to the daily chorus of shopping and meal preparation to be more independent. A sophisticated business model should be developed to meet public food safety and HACCP requirements, consumer tastes, demands and packaging. The HMR can be presented in chilled or frozen forms such as ready-to-serve, semi-finished, prepared raw materials.

? **Processed foods**

Apart from meal replacement products, the eating habits of the aging consumer supports growth in areas such as, snacks (soft, low sodium, low calorie), dairy (e.g., functional yogurt) and bakery products (100% grain-based breads) are well suited for elderly diets.

? **Healthcare products**

Healthcare products have been in great demand and the flooding of products with various health claims finally forced DOH to regulate healthcare products to protect the health of the general public. It is illegal to manufacture or import health food without submitting an application and receiving a product registration permit from the government. Please refer to Appendix A for the application procedures published by the Bureau of Food Safety, DOH.

The Health Food Control Law took effect August 3, 1999 and was amended and promulgated in 2000 and in 2002. According the law, "health food" claims only the specific nutrient and/or health care effects as labeled or advertised.

The health care effects can only be described in any of the following ways:

1. Claiming the effect of preventing or alleviating the illness relating to nutrient
2. Claiming the impact on human physiological structure and functions by the specified nutrients or specific ingredients
3. Furnishing the scientific evidence to support the claim that the health food can maintain or affect human physiological structure and functions; and/or
4. Describing the general advantages of taking the health food.

Reference available at the following URL:

http://www.doh.gov.tw/EN/Webpage/content.aspx?Lmenu=Lmenu5&Rmenu=&class_no=24&now_fod_list_no=6120&array_fod_list_no=248&level_no=2&doc_no=32337&show=show

Currently the government approved the following Healthcare effects:

1. Regulating blood lipids
2. Regulating the gastrointestinal tract
3. Regulating the immune system
4. Preventing osteoporosis
5. Maintaining dental health
6. Regulating blood sugar
7. Protecting the liver (from chemical liver damage)
8. Postpone aging
9. Anti-weariness

Six more healthcare effects are currently under public hearings. On August 24, 2003, the Bureau of Food Safety, DOH, contracted the Health Food Society of Taiwan to conduct study of the following healthcare effects:

1. Cancer Prevention
2. Alleviate side effects from Radiation Therapy and chemotherapy
3. Increase iron absorption

4. Improve the quality of life for those with predisposition to allergy
5. Regulating blood pressure
6. Control Body Fat (Weight loss)

The Healthcare Label

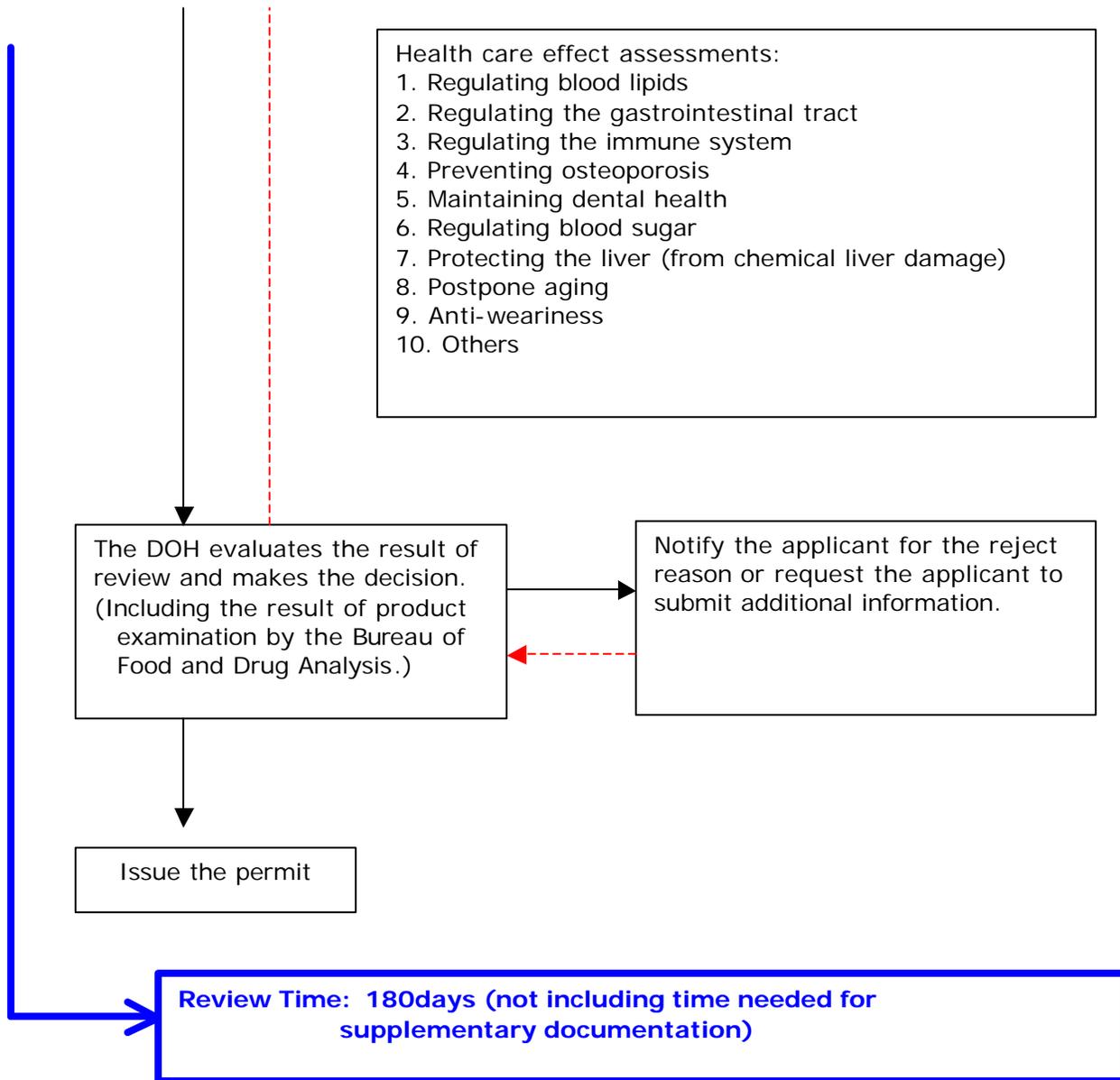
Taiwan has strict regulations on health claims. Currently in Taiwan any food labeled or advertised as health food falls under government regulations. Only companies that can afford to spend time and resources obtain health food permits. According to an importer of foreign milk products, it took them 2 years and more than US\$200,000 to obtain the permit. As of November 11, 2005, only 74 registered healthcare products in Taiwan.



The 3rd Amendment of the Health Food Control Law:

In May of 2004, the DOH proposed a draft amendment to the Health Food Control Law; the draft was approved by the Executive Yuan on November 30, 2005 and has been on its way to the Legislative Yuan for final approval. Once the draft amendment becomes law, as long as companies can provide safety and healthcare effect assessment reports based on scientific evidence in accordance to the DOH published standard protocols, no repetitive animal/human lab test will be required. This will reduce barriers to small size companies to be able to acquire healthcare product permits, and certainly will create some opportunity for US exporter as well.

The Flowchart of Application for Health Food permit



Remark:

- ▶ Indicate general procedure
- - -▶ Indicate supplementary documentation procedure